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TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF AZIZA GROUP HOME –
A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Aziza Group Home (Aziza or Agency) fiscal operations for the period of January 1, 2003 through December 31, 2003. Aziza is licensed to operate one group home with a resident capacity of six children. Aziza is located in the Fourth Supervisorial District.

The Department of Children and Family Services (DCFS) contracts with Aziza to provide the basic needs and services for foster care children placed in the Agency's care. Under the provisions of the contract, DCFS pays Aziza a monthly rate per child of \$4,479, based on a rate classification level determined by the California State Department of Social Services (CDSS). During the period of our review, Aziza received a total of \$270,337 in foster care funds from DCFS.

Scope

The purpose of our review was to determine whether Aziza has complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Summary of Findings

Our review disclosed a total of \$11,470 in questioned costs. Aziza needs to strengthen its internal controls over disbursements, payroll and bank reconciliations.

"To Enrich Lives Through Effective and Caring Service"

We have recommended that DCFS resolve the questioned costs and, to the appropriate extent, collect the disallowed amounts. In addition, DCFS needs to ensure that the Agency's management takes the appropriate corrective action(s) to address the recommendations in this report and monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

We discussed our report with Aziza management on February 10, 2005. The Agency's management has agreed to provide DCFS with a written response and corrective action plan within 30 days of this report. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Aziza's management and staff for their cooperation during our review.

If you have any questions, please contact me, or have your staff contact Jim Schneiderman at (626) 293-1103.

JTM:MMO:JS:MM
Attachment

C: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Raymond Fortner, County Counsel
David B. Sanders, Ph.D., Director, Department of Children and Family Services
Aziza Group Home
Javaid Aslam, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Bureau Chief, Foster Care Audits Bureau
Sheliah Dupuy, Bureau Chief, Foster Care Rates Bureau
Violet Varona-Lukens, Board of Supervisors Executive Office
Public Information Office
Audit Committee Members
Commission for Children and Families

AZIZA GROUP HOME
FISCAL AUDIT OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Aziza Group Home (Aziza or Agency) to provide the basic needs and services for foster care children placed in the Agency's care. Aziza is licensed to operate one group home with a resident capacity of six children. The Agency is located in the Fourth Supervisorial District.

Under the provisions of the contract, the County paid Aziza a monthly rate of \$4,479 per child, based on rate classification levels determined by the California Department of Social Services (CDSS). For calendar year 2003, Aziza received a total of \$270,337 in foster care funds from DCFS.

APPLICABLE REGULATIONS AND GUIDELINES

Aziza is required to operate its group home (GH) in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- GH Contract, including Exhibit I, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES/REVENUES

Our review disclosed a total of \$11,470 in questioned costs. Details of these costs/revenues are discussed below.

Unsupported/Inadequately Supported Costs

The A-C Handbook states that all revenues and expenditures shall be supported by original vouchers, invoices, receipts, timecards, travel logs, contract and loan agreements and/or other documentation and that unsupported expenditures shall be disallowed upon audit.

Aziza had \$6,420 in unsupported and inadequately supported expenditures for items such as employee petty cash and clothing reimbursements, an auto repair shop payment, and payments to restaurants and a grocery store. The Agency was either unable to provide any supporting documentation such as itemized receipts to indicate what was actually purchased, or the documentation provided was inadequate to establish that the expenditures were reasonable and allowable.

Unallowable Costs

We identified \$5,050 in unallowable GH expenditures, as follows:

- \$1,715 in unreasonable gasoline purchases. Aziza spent a total of \$3,665 on gasoline during calendar year 2003. Based on the number of miles the GH vehicle was driven recorded in the Agency's mileage log, the capacity of the vehicle's fuel tank, and the average gasoline prices during our review period, the Agency should have spent approximately \$1,950 on gasoline. A-C Handbook Section 1.3 states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable.
- \$1,268 in NSF check and late payment fees. Penalty and interest payments are not allowable according to the Circular.
- \$1,205 in payments for a non-group home phone.
- \$646 in unreasonable grocery purchases. These grocery purchases were made 42 miles from the GH location and considering that many of the items purchased needed to be refrigerated, it is not reasonable to assume that these items were actually for the GH program. DCFS Handbook Section 1.3 states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable.
- \$216 in payments for expenses related to a vehicle that the Agency was not able to establish was used for group home activities.

Recommendations

1. DCFS management resolve the \$11,470 in questioned costs and, if appropriate, collect any disallowed amounts.
2. Aziza management consistently maintain adequate supporting documentation for all foster care expenditures, including original itemized receipts/invoices.

Contract Compliance and Internal Controls

Our review disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. DCFS should ensure that Aziza management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor Aziza to ensure that these corrective actions result in permanent changes.

Disbursement Procedures

We noted weaknesses in the Agency's disbursement procedures during our review, as follows:

- Aziza paid an average of \$900 per month for petty cash purchases. Typically, petty cash expenditures are relatively small in amount and are for the purchase of urgently needed supplies and materials. While some of the items purchased by Aziza using their petty cash fund may have met these criteria, we found that in general, the petty cash fund was used by the Agency in lieu of its checking account for non-petty cash expenditures (e.g., groceries, gasoline, kitchen supplies, etc.).

Petty cash funds were primarily disbursed to reimburse the Agency's employees for out-of-pocket expenses. The Agency also disbursed petty cash funds by providing certain employees with cash advances from which they could make purchases, which is inappropriate. The A-C Handbook Section 2.1 states that petty cash disbursements should not be used as a substitute for normal purchasing and disbursement practices.

Aziza was unable to fully account for the reimbursement and advance payments made using petty cash funds. While the Agency was able to provide receipts and invoices which it indicated were related to the amounts reimbursed and advanced, we were unable to establish exactly which disbursements the documentation related to. The A-C Handbook Section 2.3 states that cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase.

- We reviewed Aziza's timeliness of deposits of DCFS payments and noted 15 (15%) of the 97 County warrants totaling \$13,098 were deposited an average of 14 days after the warrant issue date. The A-C Handbook Section 1.2 states that cash receipts (i.e., cash or checks) totaling \$500 or more shall be deposited within one day of receipt. The Agency needs to ensure that deposits of County payments are made timely. Many agencies that contract with the County have their County payments direct deposited. To ensure timely deposits and increase security over payments, Aziza should consider direct deposits to improve the timeliness of deposits and increase security over County payments.
- The Agency does not have a policy requiring two signatures for larger dollar disbursements. To ensure that larger value disbursements are appropriate, the

Agency should establish a written policy requiring two signatures on checks issued above a specified amount. Typically, the threshold for this control is \$500.

Correction of the internal control weaknesses noted will provide Aziza with additional assurance that GH funds are spent on reasonable and allowable expenditures.

Recommendations

Aziza management:

- 3. Discontinue the practice of using the petty cash fund (including the practice of advancing funds to Agency employees) as a substitute for normal purchasing and disbursement practices.**
- 4. Ensure all petty cash disbursements are supported by invoices, store receipts or other external documents that are cross-referenced and annotated to indicate information such as the name of the employee petty cash funds were provided to, the amount provided, the item purchased and the amount expended.**
- 5. Ensure cash receipts totaling \$500 or more are deposited within one day of receipt.**
- 6. Establish a written policy to require two signatures on checks issued for larger dollar disbursements.**

Payroll Records

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including salary rates. We reviewed eleven employee personnel files and found that two of the files did not contain the employee's authorized salary rate or pay history. We verified that the salary rates paid to these two employees were reasonable using the most current Child Welfare League of America Salary Study. We also noted that four (40%) of ten employee timecards we sampled were not signed by a supervisor as required by the A-C Handbook. Aziza should ensure personnel files consistently contain records documenting authorized salary amounts, or hourly rates of pay approved by management.

We also noted that Aziza's financial records as of December 31, 2003 reflected a total of \$106,084 in salaries owed to the Executive Director for services provided between 1997 and 2003. The Agency provided support to substantiate \$104,328. However, Aziza was unable to provide support for the remaining \$1,756. Since the Agency was unable to substantiate \$1,756 in funds owed, the amount due to the Executive Director, should be reduced accordingly.

Recommendations

Aziza management:

- 7. Ensure personnel files contain authorized salary amounts, or hourly rates of pay approved by management.**
- 8. Ensure supervisors review and sign employee timecards.**
- 9. Reduce the salaries due the Executive Director as reflected in the Agency's financial records by \$1,756.**

Bank Reconciliations

A-C Handbook Section B.1.4 states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer should sign and date the bank reconciliations. We noted that the reviewer of Aziza's bank reconciliations does not sign and date the bank reconciliations. Therefore, we were unable to determine whether the bank reconciliations were reviewed for appropriateness and accuracy.

Recommendation

- 10. Aziza management ensure the Agency's bank account reconciliations are signed and dated by the reviewer.**